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One of the 25
To Prof. Allyn Young
from the author
H. C. Cutting.

THE FINANCIAL INDEPENDENCE SERIES

BY HENRY COLMAN CUTTING

VOLUME I

Financial Independence

AND HOW TO ATTAIN IT

BY

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Preface

THE author, realizing that for this work to accomplish the object in view, that of giving to our country a financial system in keeping with our American ideals, the logic of the situation, and the desire for a change must reach the masses of the people, who now look upon finance and financial institutions as something beyond their understanding and above their control; so that, in presenting this brief work, the avoidance of technicalities and intricacies has been ever uppermost in mind. The idea presented here is new and very contrary to the universally accepted theory. So the author has endeavored to make it clear to all, preferring to risk tiresome simplicity and repetition rather than lack of understanding.

Money or finance is the foundation of civilization. Every civilized human is more intimately concerned in a proper financial system justly administered than in any other human institution. As the happiness and well-being of all are vitally affected, and as we are all interdependent each upon the other, it is the clear duty of every citizen to understand, and to see that his neighbor understands; so that the existing evils may be corrected for the benefit of all.

The reader should realize that the matter in hand is too important to all of us to be lightly dismissed, even should he not agree with the author on either the cause, the remedy, or the result. There must be something radically wrong; otherwise we would not have had Pujo Committee investigations, the Anti-Trust Laws, the Laws Prohibiting Interlocking Directors, the Federal Reserve Act, and lastly, the Act Providing for Rural Credit Institutions,

as a few of the remedies which have been administered, all looking to the curing of acknowledged defects in our financial system. Should the diagnosis here offered be admittedly correct, and the remedy suggested be logically proven a specific, we should not hesitate to administer it because the treatment seems heroic and the result utopian.

This little work is not the result of theoretical learning and of academic study, but of a varied business experience gathered in many fields of endeavor, and is not the plaint of one who has lost in the fight, but is the clarion call to those who love fair play and are neither too weak nor too indolent to demand justice.

H. C. CUTTING

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Financial Independence

Chapter I

THE TROUBLE

Money and Exchange. — The average reader erroneously considers the subject of money and exchange as made up of problems too complicated and difficult for the layman to understand, and because of this impression does not give to it the attention which his welfare and that of the community demands. The complications and the difficulties come only from the involved application of simple principles by those who realize, with Emerson, that "a man's greatest asset is the imbecility of those about him." The writer believes that the people can be made to see how completely this human attribute is being taken advantage of, legally but still unfortunately; and

that when they do see it, they will desire to remedy the condition. This desire is all that is required — they possess the power.

Who Mints our Money? — The common impression that the *money* of the country is minted by the Government is true only to a limited extent, for while the Government does "mint"—that is, place its stamp upon the metal or specie and the paper commonly called currency, that is a very small portion of our present-day circulating medium. The real vehicle of exchange by means of which our business is transacted, our individual success is measured, and our comfort and independence are secured, is "minted" by banks; in other words, *our present-day money* is issued and controlled by private institutions operated for private gain.

Exchange as used here means trade, — buying, selling, or barter. The boy at school who trades a top for a jack-knife, and gives marbles or pins to boot, knows all about it. In this big world of ours,

when we grow up, one man makes hats and another makes bread. This diversity of employment is what we call division of labor. Then the two men trade products with each other, so that the baker has a hat, and the hatter has bread. As one hat is worth more bread than the hatter could eat before it became stale and worthless, the baker gives the hatter bread tickets, which he agrees to accept for bread whenever and by whomever presented, or he gives him credit for a certain number of loaves upon his books.

Definition of Money. — In that immediate community, where the people know the baker, and have confidence that he will furnish such a loaf of bread as the ticket calls for at any time a ticket is presented, or that he will deliver bread upon an order from the hatter, that bread ticket, or the order from the hatter, becomes money, or the medium of exchange. *Money is anything the people of the community will ac-*

cept in exchange for their property and services. The hatter can take his surplus tickets to the butcher and buy meat, or the shoemaker will repair his shoes in exchange for an order for bread.

The bread itself, if used as a medium of exchange, is intrinsically valuable money, like gold; the use of it is barter.

The bread ticket is representative or fiduciary money, like our gold and silver certificates, greenbacks, and bank notes.

The order for bread given by the hatter on the baker is the same as a bank check. *It transfers credit.*

The value of the last two depends upon the *confidence* of the community in the baker and hatter.

There is nothing more complicated nor difficult to understand in the whole world of finance than in the foregoing simple illustration.

Reason for Money. — When men first reached a point of development which en-

abled them to have sufficient confidence, each in the other, so they could gather together in small communities better to protect themselves and to supply each other's wants, then division of labor became possible. This division of labor, when the community became larger than one family, gave rise to the necessity for the exchange of goods and services.

Barter. — In the dawn of civilization, this exchange was carried on by barter, or the trading of one commodity or service for another. As the community enlarged still further, barter became inconvenient, and some article easily portable, durable, and commonly acceptable, began to be used as money, or as a medium of exchange. At one time or another almost every kind of merchandise answering the above description has served the purpose.

Commodity Money. — This primitive money had an intrinsic value, and the use of it was only barter after all, but barter

proved inconvenient, restricted exchange, and so hindered development. The use of money overcame this to a degree, but even the use of money was a hindrance to an expanding trade.

Throughout the commercially civilized world today this form of conducting exchange has practically disappeared, gold being the last form of commodity-money to be used.

Fiduciary Money. — As the community continued to grow, and commercial activity to increase, even gold and silver became inconvenient and incapable of performing the functions of exchange, so representative or fiduciary money came into use. This consisted of Government-issued currency, bank notes, etc.

Bank Credit. — With steam overcoming distance, and with electricity annihilating time, the business community became so enlarged that the fiduciary money, brought into existence by the demand for a more

elastic and more easily handled medium of exchange, finally developed into *bank credit.* This last expedient seeming to satisfy all demands, is now so universally accepted that it has practically displaced the use of all other vehicles of exchange.

Money the Barometer of Civilization.—So we see that from a state of existence where each human being provided for all of his own wants and for the wants of his immediate family, we have developed first through exchange by barter, then through exchange by commodity-money, to a state where we used fiduciary or representative money, and finally we have progressed to a state of commercial development where we use but a very small amount of even fiduciary money. So that today the use of *money*, as that term is commonly understood, has almost ceased. We have advanced to a more convenient form of exchange, — that is, to the use of *bank credit*, or, one might say, to a system of

bookkeeping, by which the exchange of goods and services is conducted. Each improvement in the means or method of conducting exchange has in turn produced a higher level of civilization, a larger material development, and a wider field of action; as well as a greater interdependence each on the other by allowing a constant increase in the division of labor. In proportion to these advancements the medium of exchange and its issuance and control have become of increasing importance to each individual and to the community.

What History Teaches. — During this development, which has covered many hundreds of years and has been fraught with many painful experiences, no fact has been more emphatically brought out than that money, or the *medium of exchange, must have the confidence of all the people, and be acceptable to all,* or disaster results.

Confidence not Necessary in the Past. — When commodity-money was used, the only question presented to the trader was whether the article or articles offered in exchange, or as money, were of the weight and grade demanded by common use. This in many cases was regulated by law, and in the case of metal money a Government stamp was put on the metal for no other purpose than to guarantee its weight and fineness. The trader could examine the article he was receiving, and decide for himself whether it was sound money as represented. No confidence was necessary. Each trader relied on his own knowledge and judgment.

When fiduciary or representative money came into use, a question was always presented as to its genuineness, and as to the ability of the issuing source to redeem its pledge in intrinsically valuable or commodity-money. As long as all members of the community had confidence and accepted

this money at par, it served its purpose, but it lost its value just in proportion as the issuing source lost the confidence of the people.

100% Confidence Required Now. — Inasmuch as confidence is a necessary element for this fiduciary money, it has been found, after a bitter experience, that the Government must issue it or stand back of it, because no private institution can gain and hold 100% confidence of the people, and unless money has 100% confidence it is subject to discount, and that means commercial disaster.

In all this there is nothing new, being merely a statement of fact and history. As recorded above, the use of money in present-day business, except for small transactions, has been discontinued. A man who made a payment of any consequence today in currency would be considered an old fogy; if he used gold, he would be looked upon as a curiosity; and if he

paid in silver, he would be regarded as a nuisance!

Necessary Element Lacking. — *The bank check has displaced money as the medium of exchange*, and while this is a step in advance, and while *bank credit*, which the check represents, is the most modern and best medium of exchange yet devised, it is the real cause of our trouble, for as at present issued or minted it lacks the one element necessary for sound and safe money. That lack is *universal confidence.*

The reason is apparent. *It is issued and controlled by banks, which are private institutions.* As pointed out, all history has taught us that the medium of exchange, to have and to retain 100% confidence of the people, *must be issued and controlled by the Government*, and anything less than 100% confidence brings disaster. The panics which have occurred once every decade for the last eighty years bear

witness to this, and even these are by no means the worst results of our present system.

How a Private Mint Operates. — Before discussing the bad effects, it is well to see just how this private mint is operated. A bank is incorporated for say $10,000 of stock, all paid up, and it opens for business. The people of the community deposit $50,000 in cash. At this stage the balance sheet reads as follows:

Resources		*Liabilities*	
Cash	$60,000.00	Capital	$10,000.00
		Deposits	50,000.00
Total	$60,000.00	Total	$60,000.00

The banker knows by experience that these deposits will be a constant or increasing amount, for as withdrawals are made new money is deposited, so he can depend upon having $60,000 or more cash always on hand. This, however, shows no profit to the banker, but the private mint now begins operations:

Bank Coinage. — A customer applies for a loan of say $1000 for ninety days, or, to put it in bank parlance, the banker buys commercial paper. He takes the customer's note, payable in ninety days, at 6% interest. The banker may take the note and credit the customer with $1000, and wait until the note is due to collect the interest, or he may discount the note, — that is, take the interest in advance, — and in that case the customer is credited with $985 in exchange for his $1000 note, due in ninety days. Whichever way it is done, the point is this: the customer is given a credit in his bankbook for the amount of the note he gives. If the customer deposited money, the entry would appear the same both on the customer's bankbook and on the banker's books. It is a deposit, for in theory the banker has handed the customer the cash for his note, and the customer has deposited that cash in the bank, but in reality not a cent

of money is used. The banker has simply coined or minted $1000.

The customer returns to his office, draws his checks in payment for goods or services, and the net result is that $1000 has been added to the circulating medium.

The banker continues to make loans or to discount paper as above until, we will say, he has loaned $360,000, or has bought $360,000 of commercial paper, on which he has made $10,000 in discount or interest. The cash deposits and withdrawals balancing at $50,000 the balance sheet shows as follows:

Resources		*Liabilities*	
Cash:			
(Capital $10,000 Cash deposited $50,000)	$ 60,000.00	Deposits ($50,000 Cash; $350,000 Bank Credit)	$400,000.00
Loans and Discounts	360,000.00	Capital	10,000.00
		Profit	10,000.00
Total	$420,000.00	Total	$420,000.00

Currency Control by Congress a Myth.— The bank, on $10,000 of its own cash

and $50,000 cash deposited by the people, which is Government-issued money, has minted and added to the circulating medium $350,000, or about six dollars in bank credit has been minted by the bank for every dollar of cash minted by the Government, and deposited or put in as capital. If this bank is in a State which requires a 15% legal reserve, it has about reached its limit until more cash is deposited, but for every dollar of Government-minted money deposited by the people the bank can mint about six dollars of bank credit, which performs the same service and is really our present-day money. In a State where no legal reserve is required, the only limit is the banker's judgment or nerve.

As long as the banks enjoy the privilege of issuing from six to ten dollars on each dollar issued by the Government, and the question of how much and to whom it will be issued is wholly within the discretion of those who control them, not only is the

inflation or the contraction of our real currency at their mercy, but they are the arbiters of every man's destiny, and the rulers of this Nation. Let us grant, for the sake of argument, that our bankers are the most worthy and the most intelligent men among us: yet the people cannot have 100% confidence in money turned out by a private institution, which is operated for private gain. The burned child is afraid of the fire.

Why Confidence is Lacking. — In a commercial bank, all the deposits of $400,000, shown in the last balance sheet, are payable on demand. If a rumor spreads through the community that the bank is unsafe, and the depositors start to draw out their deposits (which is called a run on the bank), it is evident that when the $60,000 cash shown on the statement is gone the bank must close its doors.

The Bank Clique. — This does not necessarily mean that the owners of the rest

of the deposits of $340,000 will lose all or any part of their money, for if the rest of the assets of the bank shown as loans and discounts under the head of *Resources* are good, the depositors and even the stockholders may come out all right; but this is rare. More frequently it appears that the directors have loaned the credit of the bank to insiders, or to the *bank clique*, on inadequate security or even on no security, so that the notes or commercial paper are uncollectible, and the depositors lose all or the major part of their deposits. This has occurred so many times that the people never can have 100% confidence in the banks as at present operated, and a medium of exchange minted by them and depending upon them for security will never be safe. The foregoing applies in principle to every bank, large or small.

Our theory of government is that the Government is *of* the people, *by* the people,

and *for* the people. *So personal interest* is *eliminated* from *Government-issued money*, and we have confidence in it, and will accept it at 100% just so long as we have full confidence in our Government.

The bank is not *of* the people, it is not operated and controlled *by* the people, and certainly no one is simple enough to think that it is operated *for* the *benefit of the people.* It is owned, controlled, and operated for the benefit of the bank, which means the stockholders generally, and the *bank clique* particularly. Those stockholders who control the bank, and their business associates, make up the bank clique, or insiders. One may be a stockholder and still be an outsider.

What makes Banking Profitable.—It is this privilege of accepting deposits and issuing bank credit which makes the banking business profitable. The bank capital is solely for the purpose of attracting deposits. When the deposits come,

the mint begins operations, and therein lies the profits. It should be clearly apparent that *all of the apparatus the banker uses to make a profit belongs to the general public.*

Elements of Credit. — Credit is made up of two elements, *confidence* and *time.* If your credit is good at the corner grocery, it is because the grocer believes that you will pay at some time in the future. The *time* he is willing to allow you for payment depends directly upon the amount of *confidence* he has in your ability and willingness to pay. *No confidence, no time; more confidence, more time.*

Liquid Assets. — The same rule applies to bank credit in this way: the banker is lending money that belongs to the depositors, and which is payable on demand. While the banker may have abundance of confidence in the borrower, the people may not have equal confidence in the banker, because they do not know what security

he has received for the money he has loaned or, indeed, whether he has any; and because the insiders or bank clique have wrecked so many banks. At the least hint of weakness, the depositors will withdraw their deposits; so the bank enjoying but little confidence of the people is compelled to make short-time loans. As expressed by the commercial banker, his assets must be kept *liquid*. (That is, quickly convertible into cash.)

The Farmer and the Bank. — So it is seen that the people's lack of confidence in the banks compels them to mint a very unstable and transient variety of money. *This shortness of time* in our present-day money works to the great disadvantage of the farmer, and to the men who are developing the country, but by the same token to the advantage of the speculator.

Because of the fact that the farmer cannot use thirty, sixty, and ninety-day money, and because the farmer is still quite a factor

in our national and political life, Congress has found it necessary to pass a bill for the creation of *rural credits.* Creating a financial institution for each kind of business may *cover up* the defects of our present system, but it cannot *cure* them.

Rural Credits. — As stated above, *time* is in direct proportion to *confidence.* If the people knew positively that no bank could fail, that every dollar of its loans were on good security, if the people had 100% confidence in the banks, there would be no reason for limiting their loans to thirty, sixty, and ninety days. Liquid assets would not be necessary, and rural credit institutions would not have to be held out to the farmer as a panacea for his ills. He could borrow money from the same bank which loans to the merchant and to the speculator, and on equally good terms.

Bank Credit and Our Rulers. — It is safe to say that nine-tenths of the medium of

exchange used today is bank credit. The fact that nine out of every ten dollars of the circulating medium is issued and controlled by private institutions may not be particularly startling nor abhorrent, but an analysis of the results of turning our coinage over to private parties for private gain is, as we shall see, at the expense of our liberty, our safety, and our efficiency, and is the cause of distress and disaster.

Why Pad the Yoke? — In time we could perhaps put enough patches on the present system in the shape of Federal Reserve Banks to bolster up the confidence of the people, and add a little to the liquidity of the bank's assets, Rural Credit institutions to take care of the farmers, Poor Men's banks to take care of those who are beneath the notice of the Rich Man's bank, so that panics would come only every fifteen or twenty years instead of every ten as now, and we could hobble along, but why pad the yoke to keep it from

galling, why put additions on the private mint when the minting of money is a Government function? Why not have a financial system that is right both in theory and in practice, and fair to all?

A Monetary Despotism. — We have seen that the common belief that our Government issues and controls our money, or the medium of exchange, is not true in practice. Our citizens believe that this great country of ours is a Republic, and to be sure we do enjoy a republican form of government; but in practice we have a monetary despotism, ruled by a financial oligarchy.

A presentation such as this will not permit of detail, so all that will be attempted here, before suggesting the remedy, will be to mention some of the defects which will be readily recognized and admitted by every one.

Obvious Defects of Our Present System.— Our present system is a menace to *the people*, as represented by the State, be-

cause it allows a small group of men to control such vast sums of money that even high Government officials are intimidated or bought outright. Money stringencies and panics can be and have been brought about for political purposes by the concerted action of a few banking groups. Many a time a loan refused, or a loan called, or the threats of such action, have caused public officials to prostitute their office in order to save themselves financially.

The *present system* gives to a few men the right to decide in what direction the money shall flow, thereby causing stringency in some lines and affluence in others, so it is a menace to stable business and to legitimate commercial enterprise.

What Property shall Enjoy Coinage. — It is *unjust* because it gives to a small group of men the right to decide who among the people shall borrow the money belonging to the people; in other words, what property shall enjoy coinage into bank

credit, and what shall not. This means the fixing of arbitrary and discriminating valuations, and gives to a favored few distinct and unfair advantages over other men less favored.

Aristocrats and Courtiers. — It builds up a moneyed aristocracy which is more autocratic and unsympathetic than the hereditary aristocracy of Europe. Few business men can be independent; the vast majority must bow to the whim of the banker. The business man should be an independent thinker, a fearless doer; not a courtier. His ability and integrity as a business man, and the value and stability of his enterprise, should determine his right to the use of credit; but at present these factors are not nearly so potent as a *pull* with the banker.

The Trusts a Symptom, not the Cause. — Various writers have pointed out many, if not all, of the foregoing defects of which our financial system stands convicted, but

they have apparently failed to discover the real underlying cause of all these troubles. With other boog-a-boos the "Trusts" have been made the scapegoat, but the "Trusts" are only a symptom and not the cause of the trouble. Naturally lacking correct diagnosis of the disease, a proper remedy has not been suggested.

Briefly stated, the cause of our trouble is this:

THE BANKS HAVE DISPLACED BY "BANK CREDIT" GOVERNMENT-ISSUED MONEY AS THE MEDIUM OF EXCHANGE, SO THAT THE BANKS, INSTEAD OF THE GOVERNMENT, CONTROL THE COINAGE OR ISSUANCE OF OUR PRESENT-DAY MONEY.

CHAPTER II

THE REMEDY

WE have no desire to do away with bank credit as the medium of exchange, as we have found by experience that it is the best medium yet devised; so there is but one remedy:

PUT BANK CREDIT UNDER GOVERNMENT CONTROL, SO THAT IT MAY BE ISSUED OR COINED IMPARTIALLY FOR THE BENEFIT OF ALL.

Neither Revolutionary nor Socialistic. — The method of accomplishing this is not revolutionary, but is directly in line with the history of bank development and with present tendencies toward Government control of public utilities, as exemplified by our Interstate Commerce Commission, our Public Service Commissions, and our Federal Reserve Board.

Confirmatory Opinions. — Men in exalted positions, while they have not suggested the same reasons, have grasped the idea that banks should be controlled by the Government, — as witness the word of Senator Owen, Chairman of the Senate Committee on Banking and Currency:

"My own judgment is that a bank is a public-utility institution, and cannot be treated as a private affair for the simple reason that the public is invited, under the safeguards of the Government, to deposit its money with the bank, and the public has a right to have its interests safeguarded through organized authorities.

"The logic of this is beyond escape. All banks in the United States, public and private, should be treated as public-utility institutions, where they receive public deposits."

Also the statement of Mr. Justice Holmes of the Supreme Court of the United States, in the Oklahoma Bank case:

"We cannot say that the public interests to which we have adverted, and others, are not sufficient to warrant the State in taking the whole business of banking under its control. On the contrary,

we are of opinion that it may go on from regulation to prohibition except upon such conditions as it may prescribe."

The system, here suggested, gives a practical and safe plan of carrying out the idea.

The extent of the benefits of the new system will not be apparent at first glance, even to the careful student. The vision of the magnitude of the benefit to be derived will come slowly, but none the less surely, to every intelligent thinker.

For purposes of presentation it will be best to consider this remedy as a National one, and as applied to the National banking system. With a few changes it can be applied to State banks. Details cannot be covered in a short treatise, and many will have to be worked out by experience. The idea is to present a workable general plan.

The New System. — It is suggested by way of remedy to control the issuance of bank credit through two Government commissions to be known as the SECURITY

COMMISSION and the LOAN COMMISSION, a detailed plan for both of which is given herewith:

Security Commission

Commissions for each District, one.
Number of members, nine.
Term of office, nine years.
Removal, for cause.
Duties, appraisal of all property, custody of business records.

Loan Commission

Commissions for each District, one.
Number of members, nine.
Term of office, nine years.
Removal, for cause.
Duties, to control loaning and investment of money deposited in banks, trust companies, building and loan associations, and insurance companies; to control all clearing house operations, rediscounting of securities, issuance of Federal Reserve Notes; to perform the present functions of the Directors of Federal Reserve Banks.

Security Commission Personnel. — The country being divided into Districts identical with the Federal Reserve Districts, there would be for each District a Security

Commission of nine members, serving nine-year terms,—one term expiring each year or three terms expiring each three years. To minimize effectively the possibility of political preference or subservience to private interests, these nine members would be appointed as follows: three appointed by the President of the United States; three elected by the County Boards of Supervisors of the District, each board having as many votes as the County or District represented has millions of assessable property; and three appointed by the Governor or Governors of the State or States composing the Districts, each Governor casting one vote. Of the three members to be appointed by the President, at least two should be non-residents of the District in which they are to act. This would tend to break down the lines of sectionalism by bringing into each District the best thought and ideas of some other District, and would prevent the localiza-

tion of interest. All parts of the country would be brought into more intimate contact. The failure of any of the nine members of a Commission to perform his duties would of course necessitate his removal, which could be accomplished by the appointive power. The suggestion that the membership be nine in number is made because the business would probably be divided into departments somewhat as follows:

1. City Real Estate
2. Country Lands
3. Transportation
4. Public Utilities
5. Manufacturing
6. Mercantile
7. Personal

and each of these departments would have at its head one member of the Commission, the idea being that the head of each department should be or should become an expert in that particular line of work. This still leaves two members, not attached definitely

to any one department, who would act in a general advisory capacity, or who might become heads of departments to be added in the future. All questions should be decided by a majority of the Commission.

Duties of Security Commission. — For the purpose of facilitating business and regulating and standardizing its work, the Commission would adopt and promulgate rules and regulations which, after approval by the Federal Reserve Board, should be printed and sold at a price sufficient to cover their cost.

For the purpose of accommodating without undue hardship all the people in the District, the Commission would establish branch offices wherever necessary in the District, appointing deputies in charge of such branch offices; but the business done must be at least sufficient to support each office.

The foremost duty of the Security Commission, as its name signifies, would be to

fix scientifically the valuation on all property within the District which is presented for security, and finally on all property on which taxes are collected, and to keep careful and accurate statistics of the business record of every individual, partnership, corporation, or firm doing business within the District.

In doing this, the Commission would finally procure and keep a complete record of all property both real and personal on which taxes are collected, and which could be used as security. In the case of real estate, both city and country, it should consist of a plat showing ownership (noting all defects of title as far as known), location, area, improvements, use, and value.[1]

Honesty in Business Compulsory. — The Security Commission would do well to take over the mercantile agencies, such as Dun and Bradstreet, and extend and im-

[1] These records already exist in the offices of recorders and assessors, but they would have to be verified and improved.

prove their records until they contain an up-to-date business record of every man or firm who enters the business field. This one thing alone would be a great spur to business success and fidelity, and a wonderful brake on dishonesty and chicanery. It would protect the people from all kinds of crooks and confidence men, who now operate freely and without restraint. This system would give every man a business record so complete that a deliberately crooked act would practically be business suicide, while a good record would be a real asset.

Insurance records would also have to be kept, reports being made by the insurance companies of all policies issued or cancelled which were effective within the District.

Operation of the Security Commission.—The Commission should devise and furnish proper forms, known as Security Certificates, on which security valuations would be made on demand by the owner of

property and the payment of the required fee.

It should be a crime, punishable by fine and imprisonment, for any member, deputy, or clerk of the Commission to divulge a business secret of any person, firm, or corporation applying to the Commission, or making to them a statement for business purposes.

Any person or property owner being dissatisfied with his record or the valuation given him on his property might have his grievance settled in the following manner:

No Chance for Graft or Personal Interest. — On a blank form provided for that purpose the dissatisfied person may state in writing his reasons for objecting to the record as given, or to the appraisement as made, and he should file this complaint with the head of the proper department. The complaint would then be answered in writing in its regular orde: and without delay

by the head of that department. If the complainant is still dissatisfied, he may appeal to the whole Commission. When such appeal is made it should be heard without delay by not less than a majority of the Commission sitting as a court. Evidence may be presented, and for that purpose witnesses may be summonsed. Should the verdict still be unsatisfactory to the complainant he may appeal still further. The head of the department first hearing the complaint, or a member designated by the Commission, acting as judge, would summons a jury of twelve men or less as agreed upon. The jurymen should be summonsed and selected under the same rules as for a court jury, except that they should be summonsed with reference particularly to their special knowledge of the kind of property or security in question, if that is the question. The decision of this jury would be final, but the whole record would go to the Loan Commission if the party

applies for a loan. All expenses of the appeal would be borne by the plaintiff.

Loan Commission Personnel.—The directors of the Federal Reserve Bank would become the Loan Commission, and their appointment would be similar to the present method. Three members would be chosen by the stockholding banks, as at present provided; three members, who at the time of their appointment should be actively engaged in their District in commerce, agriculture, or some industrial pursuit other than banking, would be chosen by the Governor or Governors of the State or States comprising the District (each Governor to cast one vote), instead of being chosen by the banks as at present provided; and three members would be appointed by the Federal Reserve Board as at present. One of these latter should at the time of appointment be a non-resident of the District in which he is to act, and he should be the Chairman of

the Loan Commission, and the Federal Reserve Agent. He would have the powers and would perform the duties of this office as now set forth in the Federal Reserve Act.

Any director failing to perform the duties of his office in a satisfactory manner would be subject to removal by the appointive power.

Duties of the Loan Commission. — The duties of the Loan Commission would be to perform the present functions of the directors of the Federal Reserve Bank as set forth in the Federal Reserve Act, which act can be adapted to the new financial system with but few changes which need not be enumerated here; to have full charge of and control over all clearing house operations within the District; to keep a record of all funds within the District which are available for loans or investment; to receive and pass upon all applications for loans; to examine and approve securities

offered for loans; to record and send notification daily to all banks within the District of all approved applications for loans; to receive and settle all complaints regarding loans; to approve before consummation all purchases of stock, bonds, and other securities by banks, trust companies, and insurance companies; to promulgate and publish, with the consent and approval of the Federal Reserve Board, rules and regulations, not inconsistent with law, for the uniform operation of the Commission. All such regulations would have to be general.

Operation of the Loan Commission. — Generally all applications for loans would have to be accompanied by a certificate of security and a certificate of character from the Security Commission, and would be passed upon by the Loan Commission before being considered by the banks. Small loans could be made on character certificates without security, and where the

credit of the borrower is well established unsecured paper could be accepted by the banks under certain rules without the formal application to the Commission. Notice of this would be given to both Commissions, so that no concern would be permitted to go beyond a safe limit of credit.

Appeals.— Any applicant for a loan being dissatisfied with the action of the Loan Commission would first, on a blank form provided for that purpose, submit a written statement of his grievance to the Commissioner immediately in charge. After the Commissioner's reply, if the applicant is still dissatisfied, he might appeal to the whole Commission, five members of which would constitute a quorum, and the matter should be decided without delay. Should the applicant still be dissatisfied, he may appeal from this decision, and one of the Commissioners, acting as judge, would summons a jury of twelve or less, as might be agreed upon, one-half of the number

being representatives of banks, and one-half other citizens. Any bank called upon for a juryman would have to furnish one, other jurymen to be summonsed and selected as in the Security Commission appeals. The decision of this jury would be final, and the cost of the appeal would be borne by the plaintiff.

The explanation in later pages shows how the Security Commission performs scientifically the work now guessed at by bank appraisers, and how the impartial Loan Commission displaces the favoritism of the banks' loan committees.

Laws to Govern Banks. — A few laws governing the banks would be necessary. No bank could loan money except on approval of the Loan Commission governing the District in which the bank is located. No bank could invest any of its funds other than ninety-four per cent of its capital and surplus, and its undivided profits, in any property or securities until

such investment had been approved by the Loan Commission.

The capital, surplus, and undivided profits belong to the stockholders of the bank, and are not bank deposits belonging to the people. Six per cent of the capital and surplus of National banks is required by the Federal Reserve Act to be invested in the stock of the Federal Reserve Bank, so this would come under the control of the Loan Commission, but the control of private property by public commissions is not approved by the author.

Runs on Banks Prevented. — Under the new system, a run on any bank can hardly be imagined, as the cause of runs, — lack of confidence — has been removed. The people, knowing through their public officials that every asset of the bank is worth one hundred cents on the dollar, have the further guarantee that every asset of the bank can be made liquid by the following provision: Any bank lacking funds to pay any deposit or other obligation on demand might borrow from any other bank through

the Loan Commission, or might rediscount its paper to any other bank, or the Federal Reserve Bank could rediscount all paper offered which had been approved by the Loan Commission.

Bank Failure Impossible. — Should such bank still be unable to meet the demands made by its creditors, all its assets would be surrendered to the Loan Commission, and the Federal Reserve Bank would satisfy all just demands against such bank, returning to the stockholders any residue after liquidation. For the purpose of rediscounting the paper of a bank, and absorbing its assets, the Federal Reserve Board would have the power to issue Federal Reserve Notes, redeemable by the Government as at present provided.

Any application for a loan which does not find acceptance by any of the banks of the District in which the security is located, may be submitted to the banks of any other Districts through the Loan

Commission of that District, or may be taken up by the Federal Reserve Bank; but no loan may be made by the Federal Reserve Bank until it has first been submitted to the banks of the District in which the security is located.

Chapter III

THE RESULT

It has been shown that under our present system commercial banks cannot extend credit safely for more than ninety days. This makes real estate loans by commercial banks practically impossible, and, in fact, National banks are prohibited by law from making such loans. The new system cures the defect which causes this limitation of credit to ninety days, and removes the necessity for the restriction. We can extend the time of the bank credit in the same proportion that we have enlarged the confidence of the people in the banks.

Under the new system, the Government would control and stand back of the bank credit. It would enjoy the same confidence that other Government-issued money holds, so that, within reason, time would

be of no consequence. All loans would stand on an equal footing,—all would be equally liquid.

The Two Systems Compared. — To compare practically the operation of the two systems, let us follow through the details of a series of business loans. As an example, which answers equally well for all kinds of business, let us take a block of buildings in any city. Suppose there are twenty buildings of different ownership in that block, and each owner is desirous of securing a loan on his property. Under the present system, owner number one goes to bank number one to secure a loan on building number one. Owner number two goes to bank number two for a loan on building number two. The twenty different owners go, perhaps, to twenty different banks, for twenty different loans.

No Real Experts now. — Bankers have little judgment as to the value of securities. If a loan is to be made on real estate, under

our present system, an expert in real estate values is called into service. If the loan is to a factory, an expert in that line of business is called upon to go over the statement of the business, and to pass judgment on its value. The men who are selected as experts are not experts, and, besides, their judgment may be warped or influenced by self-interest. Under the present method, each bank selects its own so-called expert or appraiser, and in most cases haphazard, without knowing what real qualification he has to be called an expert.

Because of this haphazard selection, and because the remuneration of the so-called expert is small and uncertain, *it is no one's business or duty to make a real study of values in a scientific and disinterested way, so no one does it. Consequently there are no real experts. Most appraisement is guess work, influenced by self-interest.*

The Bank's Loan Committee.—Before a loan is made by a bank, the application

generally must pass the loan committee of the bank management. This committee may have one or more members who are competitors in business with the applicant for the loan, so the different personal interests of the twenty different loan committees of the banks will finally have to be considered in fixing the security value, and giving consent to the loans.

Conflict of Interests. — All this inefficiency and the conflict of interests not only tend to a very unjust decision, but require a needless amount of time, and place a heavy tax upon the borrower, in both legitimate and unnecessary expenses. Furthermore, it is more than likely that the banks will know little if anything as to the business record of the borrower, his actual honesty, business ability, or personal character. Haphazard guess work, influenced by personal, interest, finally determines the matter.

Operation of New System. — *Under the new system* there are, as before, twenty different owners, each seeking a loan on his property; but, instead of going to the banks and begging for the privilege of borrowing the people's money (or, what is really the fact, having his own property coined into the circulating medium by the private mint), each owner applies at the office of the Security Commission for an appraisement of his property.

There is on file in that office a record of all real estate within the District, appraisement of which has been made by disinterested experts, and accepted by all the people as correct.

Security Certificate. — This record is kept alive and up to date, like a fire insurance company's block book. From this record, in five minutes, a clerk can make out a certificate of security which will be given to the property owner. This certificate, if to do with

real estate, will show particularly the following things:

1. The location of the property.
2. The legal description of the property.
3. The title (flaws of course will have to be remedied or considered).
4. The buildings: when built, when increased and improved, and the cost of buildings and improvements.
5. Occupancy.
6. Insurance carried and its expirations.
7. Business record of owner.

Security certificates on property other than real estate would show the necessary factors of each security.

Accuracy *vs.* Guess Work. — Under the new system, statistics would be gathered by disinterested employees of the people. These would be tabulated by scientific experts, and the deductions made would be of real value, and could be relied upon with certainty. The business record of the borrower would be correct, for he could see to it that it was correct. Certainly

there would be a uniformity of appraisal on these twenty properties that could not be secured by the twenty owners from twenty different appraisers and bank loan committees.

How a Loan is Made.—Now let us go further: each of the twenty owners, having secured his certificate from the Security Commission, showing in detail the value of his property, fills out on a blank form furnished by the Loan Commission his request for a loan, stating the amount desired, the time for which it is desired, the interest he will pay, or asking the bank to name the interest, and attaches to this application his certificate of security. The Loan Commission makes a record of the different papers, and then passes on the advisability of making the loan as requested. If approved, a notice of the application would be sent to all the banks within the District which have funds available for loans. If funds are not avail-

able in the banks of that District, copies of the application may be forwarded to the Loan Commissions of other Districts, to be taken up with their banks; or, if the Loan Commissioners so decide, they, being Directors of the Federal Reserve Bank of the District, may make the loan themselves from the Federal Reserve Bank. In any case, all bids for the loan received by the Loan Commission are recorded and duly turned over to the borrower, who makes his choice within a definite time, and deposits with the Commission the necessary papers for the loan, the Commission forwarding these papers to the bank or banks chosen by the borrower.

The certificate of the Security Commission in one District should be good throughout the country, and the consequent standardization of appraisal and property valuation, together with the operation of the rule allowing loan applications to go to other Districts, would

tend toward the equalization of interest, and the making of all the funds of the Nation liquid and available for the transaction of business throughout the country.

Better for Banker and Borrower. — It can readily be seen what an improvement this dignified and straightforward business proceeding is over the present method. It is better not only for the borrowers but for the banks themselves. As it is now, some banks are loaned to their limit, even beyond their proper limit; other banks are unable to get a sufficient demand for loans, and either send their funds out at low interest rates to other banks in the big cities, so as to have their funds working, or accept risks which would not ordinarily be acceptable. Under the new system, the law of supply and demand, working on the whole country as a field, gives a fair chance to each borrower and to each lender. There is nothing revolutionary about it; it

is merely applying the methods of efficiency and sound common sense to the operation of loaning and borrowing money.

As before stated, the Security Commission would do the valuing of property now done by various bank appraisers; the Loan Commission would do the work now done by the loan committees of the banks; but these two Commissions, working in the open on scientific principles, with standardized records before them, would do the work with more safety, more speed, and with less cost. Personal interest and the selfish exercise of power on the part of the bank would be eliminated.

Borrowing Money a Right, not a Privilege. — The borrower, instead of running from bank to bank begging for what is really his by right, and subjecting himself to rebuffs and humiliation until he feels like an outcast, gets his appraisement from the Security Commission, and forwards the certificate with his application to the

Loan Commission. He saves time, money, self-respect, and a very considerable wear and tear on his disposition. He no longer has to bribe, wheedle, or beg, he no longer has to have pull and inside influence; his desire for a loan is a simple business proposition, handled in a clean, businesslike manner. If his business is legitimate and his security right, he will receive his loan; if his business is not straight, and his security not of value, he will not get a chance to swindle any one.

Crooks and Grafters out of Business. — The business records kept by the Security Commission would in themselves prove powerful factors in making business cleaner and better. The people would be protected from crooks and confidence men who now operate freely. A clean business record would be a letter of introduction the country over, and failure to present one would mean exclusion.

As the Security Commission must be self-

supporting, a fee would be necessary for the rendering of the service demanded. This fee would be small, perhaps a twentieth of the present cost of securing a loan. The certificate of the Security Commission leaves no loophole; it is merely a scientific, disinterested statement of the value of the property in question.

Standardization of Values. — Some may question the possibility of this standardizing of property values, and for that reason it is worth taking a little time to explain the methods by which property would be valued. Under this new system, the figures of the assessor's office would at all times be open to the Security Commission. In fact, after the Security Commission became a smoothly-working, efficient organization, the need for assessors would be eliminated. The figures would all be in the hands of the Security Commission, and the Commission's experts would keep them up to date. A scientific valuation of all real

estate with present improvements, and of all other property available for taxation, would gradually be made. Appeals of the owners would have to be heard, and adjustments made until the standardized condition was reached. The Commission's experts would follow closely all work of improvement, and the cost of such improvements should be reported to the Commission for recording.

Establishment of Values Automatic. — The standards of value in judging property would be arrived at through the operation of the law of averages. If a man were allowed to fix his own property valuation, and that valuation had to be accepted by the Security Commission and the Tax Commission, it would naturally work for the benefit only of the rich non-borrower, and to the detriment of the borrower, because the assessment for taxes and the value as security would be fixed by the same valuation. The non-borrower would

not be interested in the value of his property as security, and would put the value low, thus avoiding taxes; while the borrower, needing his property as security, would put his valuation high, and would pay increased taxes for the sake of the added borrowing power of his property.

This difference of opinion or interest between the two classes of property holders would be settled by the Commission through complaints and appeals, the operation of which has already been described. It is this very conflict of opinion or interest that would be the determining factor in arriving at the true value of property.

Regulates Tax Values.—Under our present system, the assessor, or appraiser of our property for taxation, is in the eyes of the community its bitterest foe, because every taxpayer fights on principle for lowered taxes. The proposition of unequal and unjust assessment has given rise to endless discussion and legislation

and experiment, all of which has ended in dismal failure, because each one in the community believes it to be to his interest to beat the assessor and the tax collector.

The new system would change this attitude. *Property would be no longer merely of taxable interest; it would have a security value.* The whole public would become vitally interested in every assessment or valuation. The borrowers would study with care every assessment made, in order to show by comparison that their property was of a certain high standard and had a certain high value; while the non-borrower, anxious to escape overtaxation, would be just as zealous to prove that his property had not as high a value as the assessment showed. The average of many judgments would give a result that all would accept.

Just as the life insurance mortality tables arrive at the expectancy of life by the average of many, so would the prop-

erty valuation statistics of the entire country bring about, through the average judgment of the people, a just and fair basis of taxation, and a safe and sound security valuation, with a smaller expense to the community than is now incurred for the haphazard assessment for taxation. Such a close watch would eventually be kept upon all property that tax-dodging would be almost if not quite impossible, and shortselling of grain, cotton, etc., for speculation would be too dangerous to be attempted. The plundering of estates by fake appraisements and phoney sales could not occur.

Neither Political nor Private Graft. — The object to be attained in having two Commissions instead of one larger body is of course easily seen. The duty of the Security Commission is to value every property in relation to every other property, and on that valuation will depend the ability of the owner to borrow, and his

duty to pay taxes. To a certain degree this action is automatic, following the law of averages, the people themselves furnishing the swings of the pendulum, with the Commission determining the middle of the swing between the two extremes. The duty of the Loan Commission, on the other hand, is to determine the percentage of value to be loaned, and this, too, will be semi-automatic. If the percentage requested is too high, the banks will refuse to go that far; if the banks insist on its being put too low, the Federal Reserve Bank may make the loan, it can be taken up by banks in other Districts, or private parties could bid the business away from the banks, thereby forcing the banks to a fair standard.

Safety, Honesty, Prosperity, Power. — *Neither Commission exercises any arbitrary power, and there is consequently no chance for graft or corruption.* The object of the Commissions would be scientific and effi-

cient service. Their actions would be watched with the keenest and most jealous interest. The decisions of the Security Commission establish values — the foundations of business and fortune. The decisions of the Loan Commission take the values established by the Security Commission and add to them power. Every man, regardless of race, color, religion, or political faith, would have an equal chance to do business on equal terms with every other man. The whole political system would be quickened and purified, because every business man would realize that his business, in fact his whole chance in life, depended upon the proper exercise of political power, and the proper exercise of political duty. The greatest danger to political liberty and to the integrity of our public officials would be removed.

The Money Power. — The *Money Power*, now in the hands of a few men because they control the *mint* and operate it for private

gain, would be in the hands of the *people*, and would be used for the benefit of all. It would no longer be a menace and a source of political corruption.

The Money Trust. — The expression, "The Money Power," is used in the press and is thought of as synonymous with the *Money Trust*. The Money Trust is created by the money power in this way: under laws enacted by the people's representatives, banks, trust companies, and insurance companies are incorporated. The people put their money into these institutions. By a fiction of deposit, that which goes into banks and trust companies becomes the basis for minting *bank credit*, — and that is the *Money Power*. It is created by the people. It belongs to the people. Why do not the people control it and use it, instead of letting the *Money Trust* abuse it?

The People Should Control the Money Power. — The Pujo Committee showed in

1912 that the Money Trust controlled about twenty-five billions of dollars. A few laws were recommended by that committee, and some were passed, looking toward the curbing of this monster, but their effect in that direction is not yet apparent.

Let the people control the *bank credit*, which is the *money power*, and the Money Trust passes into oblivion, with other fearsome things of the Dark Ages. Our dark ages of finance will be over!

Our Laws Forge our Fetters. — Mr. Brandeis states that, "The fetters which bind the people are forged from the people's own gold."[1] It is not the people's gold, but the people's *laws* that forge our fetters. Gold is but a commodity like wheat or iron. It is not our present medium of exchange.

The laws, which create and govern banks, permitting them to issue *bank credit*, which

[1] "Other People's Money."

is our present-day money, are at fault. Through these laws the mint is turned over to a small group of men variously known as "Wall Street," the "Money Trust," "The Money Power," and in their hands is the fate of this Nation. They determine who among us shall ride in the coach of prosperity and who shall trudge the dusty road of adversity and despair.

This group, collectively or as individuals, are perhaps wholly unconscious of the fact that they are exercising a power which is dangerous to the Nation, and oppressive to the people. The banking customs and laws are not of their making.

Usurpation of Governmental Function.—Our financial and banking system has grown out of the necessities of commerce from the simplest beginning, and its usurpation of the Governmental function of issuing and controlling the circulating medium has been so gradual and so insidious that it has apparently escaped the

notice of our economists and our financial writers. At all events, it is accepted by them as a natural sequence of events.

The evil effects have been very apparent, and have given rise to quantities of literature and cyclones of oratory. It has been demonstrated in money stringencies, and by a disastrous panic every ten years for the past eighty years. It has produced the trusts; it has produced political and social unrest, but the real underlying cause has escaped notice.

Change the Rules of the Game.—To berate the men who exercise this power is not justice, and will bring no relief; to attempt to take from them what they have won in a game where we ourselves made the rules would be unfair and unsportsmanlike. There is but one course to pursue: with the knowledge that our self-created rules of the game work unfairly to the players, change them so that all may have an equal chance. Arrange things so that

by industry, skill, and intelligent work a man can win the comforts and luxuries of life without courting the favor of the money barons who run the private mint.

A New Declaration of Independence. — In 1776 we declared our independence because we were through with the fallacy of the "Divine right of Kings" and the injustice of a hereditary aristocracy. Our staunch old ancestors had breathed the air of a new country, they had tasted liberty, they wanted to be men, — not sycophants or courtiers, — so the great Declaration of Independence was written.

It is time to write another, — the *Declaration of Our Financial Independence.* Its adoption will be as strenuously opposed by our present financial rulers and their courtiers as was the great Declaration of 1776 by the then political rulers and the Tories. They believe as firmly in their Divine right as did ever prince or potentate. They are entrenched in the halls of Con-

gress. The wheels of Government are in their hands. Nine-tenths of our circulating medium is at their mercy. To create a panic, they have but to close their hand. Industry stops, labor is out of employment, business failures are the order of the day.

Heroes, Martyrs, and Slaves. — The rulers, their satellites, — the ultra-conservatives and the timid, — will say, "You are interfering with established conditions, you are overturning business traditions." They will blame the panic, the failures, the bread-line, and the soup kitchen on the political agitation.

No reform was ever won without a struggle, or without privation and suffering by the people. The struggle is going on now, but it is at random and in the dark:

"Here and there," says Brandeis, "you will find a hero, — redblooded and courageous, — loving manhood more than wealth, place, or security, —

who dared to fight for independence, and won. Here and there you may find the martyr, who resisted in silence and suffered with resignation. But America, which seeks 'the greatest good of the greatest number,' cannot be content with conditions that fit only the hero, the martyr, or the slave." [1]

Few of us are ambitious to be heroes, still fewer desire to be martyrs, and we all resent being slaves; so we as a people have a work to do. For this struggle, the only weapon we need is knowledge, the only strategy we need is to elect men to office who will enact laws necessary to give the Government control of the bank credit which is our present-day money; and the struggle will be won.

Financial Independence. — Financial liberty will be won. This great country of ours will be a real Republic, and will gather the power which comes from giving to each unit its full efficiency. We shall enjoy a prosperity limited only by our

[1] "Other People's Money."

own efforts, and a security measured by our own vigilance.

Knowledge is power, Power is wealth. Disseminate knowledge, take over the *money power*, and thus will each individual secure the share to which his intelligence, integrity, and industry entitle him.